

VILLAGE OF LEXINGTON, MICHIGAN

**ANNUAL FINANCIAL REPORT
with Supplementary Information**

FOR THE YEAR ENDED JUNE 30, 2008



VILLAGE OF LEXINGTON, MICHIGAN
Sanilac County, Michigan

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INDEPENDENT AUDITOR'S REPORT

To the President and Members
of the Village Council
Village of Lexington, Michigan


We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the Village of Lexington, Michigan, as of and for the year ended June 30, 2008, which collectively comprise the Village's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Village's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Village's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of Village of Lexington, Michigan, as of June 30, 2008, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 31, 2008, on our consideration of Village of Lexington's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of our testing, and not to provide an opinion on the internal control over financial reporting or compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*, and should be considered in assessing the results of our audit.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Village of Lexington, Michigan's basic financial statements. The combining and individual nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual nonmajor fund financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.


Certified Public Accountants

October 31, 2008

MANAGEMENT DISCUSSION AND ANALYSIS

This section of the Village of Lexington's annual financial report presents the Village's financial performance during the fiscal year that ended on June 30, 2008. Please read it in conjunction with the Village's financial statements, which follows this section.

FINANCIAL HIGHLIGHTS

- The net cost of all the Village's governmental programs (all funds except for water, sewer, and Mobile Home Park) was \$802,984 with no new programs added this year.
- In the Village's combined business-type activities (sewer, water and MHP) revenues were \$1,616,083 (including non operating revenue) and expenses were \$1,377,493 (including non operating expenses) resulting in positive net income of \$238,590. The increase in net assets after contributions and transfers was \$138,590.
- The Village of Lexington's total debt from borrowing decreased by \$254,446 or 5.8% during the current fiscal year.

OVERVIEW OF THE FINANCIAL STATEMENTS

The annual report consists of four parts – Management Discussion and Analysis (this section), the Basic Financial Statements, Required Supplementary Information (RSI), and an optional section that presents combining statements for non-major governmental funds and fiduciary funds. The basic financial statements include two kinds of statements that present different views of the Village: Government-wide Financial Statements and Fund Financial Statements.

Government-wide Financial Statements

The government-wide statements report information about the Village as a whole using accounting methods similar to those used by private-sector companies and provide long and short-term information. The Statement of Net Assets includes all of the governments' assets and liabilities. All of the current year's revenues and expenses are accounted for in the Statement of Activities regardless of when cash is received or paid.

The two government-wide statements report the Village's net assets and how they have changed. Net assets defined as the difference between assets and liabilities is one way to measure the Village's financial health or position.

The government-wide financial statements of the Village are divided into three categories:

- Governmental activities (all activities except sewer, water, and MHP) – most of the Village’s basic services are included here, such as general administration, public safety, public works, and parks/recreation. Property taxes, fees, and state funds finance most of these activities.
- Business-type activities – activities where the Village charges fees to customers to help it cover the cost of services it provides; included here is the sewer, water and MHP Funds.
- Component unit – although separate, the Downtown Development Authority is important because the Village is financially accountable for it.

Fund Financial Statements

The fund financial statements provide more detailed information about the Village’s most significant funds; not the Village as a whole. Funds are accounting devices that the Village uses to keep track of specific sources of funding and spending for particular purposes. Some funds are required by State law and/or by bond covenants. The Village Council establishes other funds to control and manage money for particular purposes or to show that it is properly using certain taxes and other revenues.

The Village has two types of funds:

- Governmental funds - Most of the Village’s basic services are reported in governmental funds (all funds except water, sewer, and MHP) which focus on how money flows into and out of those funds and the balances left at year-end that are available for spending. These funds are reported using the modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the Village’s general government operations and the basic services it provides. We describe the relationship (or differences) between governmental activities and governmental funds in reconciliation schedules (Statement of Net Assets and Statement of Activities) on pages 14 and 16.
- Proprietary funds - Services for which the Village charges customers a fee (water, sewer, MHP) are generally reported in proprietary funds. Proprietary funds, like the government-wide statements, provide both long and short-term financial information. The Village’s *enterprise* funds (a type of proprietary fund) are the same as the business-type activities, but provide more detail and information.

FINANCIAL ANALYSIS OF THE VILLAGE AS A WHOLE

The Village's combined net assets are \$7,683,319 million. Our analysis below focuses on the net assets (Table 1) of the Village's governmental and business-type activities.

Table 1

Net Assets of Governmental and Business-type Activities
(In Thousands)

	<u>Governmental</u> <u>Activities</u>		<u>Business-type</u> <u>Activities</u>		<u>Total</u> <u>Government</u>	
	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>
Current and Other Assets	\$ 1,663	\$ 1,712	\$ 358	\$ 321	\$ 2,021	\$ 2,033
Capital Assets	<u>762</u>	<u>637</u>	<u>9,810</u>	<u>10,133</u>	<u>10,572</u>	<u>10,770</u>
Total Assets	<u>2,425</u>	<u>2,349</u>	<u>10,168</u>	<u>10,454</u>	<u>12,593</u>	<u>12,803</u>
Long-Term Debt Outstanding	169	179	4,030	4,266	4,199	4,445
Other Liabilities	<u>173</u>	<u>194</u>	<u>538</u>	<u>726</u>	<u>711</u>	<u>920</u>
Total Liabilities	<u>342</u>	<u>373</u>	<u>4,568</u>	<u>4,992</u>	<u>4,910</u>	<u>5,365</u>
Net Assets: Invested in Capital Assets, net of debt	633	489	5,368	5,400	6,001	5,889
Restricted	1,072	1,081	49	40	1,121	1,121
Unrestricted	<u>378</u>	<u>406</u>	<u>183</u>	<u>22</u>	<u>561</u>	<u>428</u>
Total Net Assets	<u>\$ 2,083</u>	<u>\$ 1,976</u>	<u>\$ 5,600</u>	<u>\$ 5,462</u>	<u>\$ 7,683</u>	<u>\$ 7,438</u>

Governmental Activities

Governmental activities for the Village include four major activities: General Government, Public Safety, Public Works and Parks/Recreation. General Government includes the Legislative, Administrative, and Clerk departments. Public Safety includes the Police and Fire departments. Public Works includes primarily the Department of Public Works and building and maintenance of the major and local roads. The Village Parks and Recreation department comprise the Parks/Recreation activity.

The largest revenue for governmental activities is the general operating property tax. The taxable value of property in the Village was \$47,655,787 in FY 2007. In FY 2008, it was \$47,549,146 with a decrease of \$106,641 or 0.2%.

State shared revenue decreased from \$79,544 in FY 2007 to \$79,103 in FY 2008. The State of Michigan collects sales tax and redistributes a portion of these collections to local jurisdictions. State Revenue Sharing is a major source of revenue for the Village. It is somewhat volatile since it fluctuates with the economy and the Legislature's appropriation.

To assist in maintenance and repair of the road system, the Village receives Michigan Transportation Fund money that accounted for \$67,581 listed under program revenues. This money varies from year to year based on state revenues at the gasoline pumps.

Table 2 below presents the cost of each of the Village governmental activities: general government, public safety, public works, and parks/recreation, and each program's net cost (after reimbursements from other funds). The net cost shows the financial burden that was placed on the Village's general fund (primary from property tax, fees, and State shared revenue) by each of these functions.

Table 2

	Governmental Activities		Governmental Activities	
	2008		2007	
	Total cost of services	Net cost of services	Total cost of services	Net cost of services
General Government	\$ 164,513	\$ 75,432	\$ 238,498	\$ 163,963
Public Safety	423,236	265,859	398,201	243,724
Public Works	252,771	176,426	255,411	181,192
Parks/Recreation	21786	(2,906)	20,837	1,997
All others	273,852	273,852	185,660	185,660
Interest	<u>14331</u>	<u>14,331</u>	<u>8,211</u>	<u>8,211</u>
Totals	<u>\$ 1,150,489</u>	<u>\$ 802,994</u>	<u>\$ 1,106,818</u>	<u>\$ 784,747</u>

Business-type Activities

The Village has three business-type activities: water, sewer and MHP. Revenues of these activities (see Table 3) increased by \$103,284 or 7.1 %. The village experienced a net asset increase of \$138,590 for the year ended June 30, 2008.

Table 3

Changes in Net Assets of Business-type Activities		
	2008	2007
<u>Revenues:</u>		
Charges for Services	\$ 1,537,322	\$ 1,428,737
Other	<u>1,230</u>	<u>6,501</u>
Total Revenues	1,538,522	1,435,238
<u>Expenses:</u>		
Water, Sewer, MHP	<u>1,113,567</u>	<u>1,179,623</u>
Operating Income	424,985	255,615
Non-operating revenue and (expense) net	(186,395)	(47,919)
Transfers	<u>(100,000)</u>	<u>(100,000)</u>
Increase (Decrease) in Net Assets	<u>\$ 138,590</u>	<u>\$ 107,696</u>

FINANCIAL ANALYSIS OF THE VILLAGE'S FUNDS

As the Village completed the year, its general governmental fund (as presented in the balance sheet on page 13) reported a combined fund balance of \$1,489,796. \$71,220 was from the General Fund; \$443,391 was from Municipal Street Fund, a major fund; and \$975,185 was from other governmental funds.

General Fund Budgetary Highlights

There were minor amendments by the Village Council to the original budget passed in June 2007. Even though the budget is passed by the Village Council prior to the beginning of the fiscal year, all expenditures are reviewed and approved as they occur throughout the year. During the budget process the Council discusses major projects proposed for the upcoming year.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At the end of FY 2008, the Village had a book value of \$10,572,388 invested in a broad range of capital assets, including police, fire and DPW equipment, buildings, park facilities, roads, and water and sewer lines. Refer to Table 4 below for a schedule showing the Capital Assets at year-end for years ending 6-30-07 and 6-30-08 reporting Governmental and the Business-type activities. There is also a total column for the Total Primary Government for each year.

Table 4
Capital Assets at Year-end
(Net of Depreciation)

	Governmental Activities		Business-type Activities		Total Primary Government	
	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>
Land and land improvements	\$ 28,006	\$ 28,006	\$ 2,676,608	\$ 2,667,493	\$ 2,704,614	\$ 2,695,499
Construction-in-progress	90,518	31,274	189,945	189,945	280,463	221,219
Buildings & Improvements	346,026	346,026	51,889	51,889	397,915	397,915
Machinery & Equipment	276,003	193,177	269,104	256,509	545,107	449,686
Vehicles	480,473	499,073	-	-	480,473	499,073
Improvements other than Bldg	375,283	277,866	-	-	375,283	277,866
Water & Sewer systems	<u>-</u>	<u>-</u>	<u>10,545,700</u>	<u>10,540,792</u>	<u>10,545,700</u>	<u>10,540,792</u>
Total Capital Assets	\$1,596,309	\$1,375,422	\$13,733,246	\$13,706,628	\$15,329,555	\$15,082,050
Total Accumulated Depreciation	<u>833,955</u>	<u>738,779</u>	<u>3,923,212</u>	<u>3,573,766</u>	<u>4,757,167</u>	<u>4,312,545</u>
Total Capital Assets, Net	<u>\$ 762,354</u>	<u>\$ 636,643</u>	<u>\$ 9,810,034</u>	<u>\$10,132,862</u>	<u>\$10,572,388</u>	<u>\$10,769,505</u>

This year's major additions included:

Security cameras	\$ 9,717
Sewer Inspection and hand held meter	67,752
New Sidewalks	45,226
DPW Equipment-Street Sweeper	70,000
Culvert Project	50,063

Debt

At year-end, the Village had \$4,126,558 in bonds and notes outstanding versus \$4,381,004 last year, a decrease of \$254,446 or 5.8 % percent as shown in Table 5.

Table 5
Outstanding Debt at Year-end

	<u>Governmental</u> <u>Activities</u>		<u>Business-type</u> <u>Activities</u>		<u>Totals</u>	
	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>
Debt (paid by the Village)	\$ 129,600	\$ 147,800	\$ 40,000	\$ 30,000	\$ 169,600	\$ 177,800
Debt (paid by specific fee revenues)	<u>-</u>	<u>-</u>	<u>3,956,958</u>	<u>4,203,204</u>	<u>3,956,958</u>	<u>4,203,204</u>
Totals	<u>\$ 129,600</u>	<u>\$ 147,800</u>	<u>\$ 3,996,958</u>	<u>\$ 4,233,204</u>	<u>\$ 4,126,558</u>	<u>\$ 4,381,004</u>

More detailed information about the Village's long-term liabilities is presented in Note 8 of Notes to Financial Statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The Village of Lexington, population 1,104 (2000 census), is primarily a resort community located in Sanilac County, Michigan. The Village's proximity to the Detroit metropolitan area and several major roadways, including Interstate Highway 94, has helped spur recent residential development. The reported median income level for Lexington is currently \$30,792 (2000 census). New residential and commercial property development is expected over the next few years that will be beneficial to the community as a whole.

In FY 2008, the general fund posted a deficit of \$131,998. The current unreserved fund balance for the general fund is \$1,624. The Village, which relies heavily on property taxes (51.4% of total revenues for governmental funds), operated at the state-authorized tax rate limit after application of Proposal A and Headlee.

The Village has also adopted a balanced budget for FY 2009. The Village's elected and appointed officials considered many factors when setting the 2009 budget including tax rates, and fees that will be charged for the Village's activities. The revenue from property taxes was budgeted at \$317,099. State Revenue Sharing was budgeted at \$80,264. The Village has added no new major programs to the FY 2009 budget and will apply for grants whenever possible to assist in the cost of any major projects.

REQUESTS FOR INFORMATION

This financial report is designed to provide our citizens, taxpayers, customers, investors, and creditors with a general overview of the Village's finances and to show the Village's accountability for the money it receives. If you have questions about this report or need additional financial information, the Village by mail at 7227 Huron Avenue, Suite 100, Lexington, MI 48450, phone 810-359-8631, by fax 810-359-5622, or email: villagelexington@aol.com.

BASIC FINANCIAL STATEMENTS

VILLAGE OF LEXINGTON, MICHIGAN

STATEMENT OF NET ASSETS JUNE 30, 2008

	Primary Government			Component Unit (DDA)
	Governmental Activities	Business Type Activities	Total	
ASSETS:				
Cash and cash equivalents	\$ 1,348,091	\$ 366,051	\$ 1,714,142	\$ 328,828
Investments	18,800	-	18,800	-
Receivables (net of allowance)	65,889	131,072	196,961	1,183
Prepaid expenditures	51,338	39,694	91,032	-
Internal balances	178,287	(178,287)	-	-
Capital assets (net of accumulated depreciation)				
Assets not being depreciated	118,524	207,440	325,964	-
Assets being depreciated	643,830	9,602,594	10,246,424	-
Total Assets	<u>2,424,759</u>	<u>10,168,564</u>	<u>12,593,323</u>	<u>330,011</u>
LIABILITIES:				
Payables and accrued liabilities	172,609	7,676	180,285	3,539
Accrued interest	653	32,269	32,922	-
Advances and deposits	-	7,130	7,130	-
Unearned revenues	-	490,940	490,940	-
Non-current liabilities				
Due within one year	19,200	239,836	259,036	-
Due in more than one year	149,336	3,790,355	3,939,691	-
Total Liabilities	<u>341,798</u>	<u>4,568,206</u>	<u>4,910,004</u>	<u>3,539</u>
NET ASSETS:				
Investment in capital assets, net of related liabilities	632,754	5,368,289	6,001,043	-
Net Assets				
Restricted -				
Metro Authority	20,645	-	20,645	-
Streets	1,051,636	-	1,051,636	-
Meter replacement	-	48,755	48,755	-
Unrestricted	<u>377,926</u>	<u>183,314</u>	<u>561,240</u>	<u>326,472</u>
Total Net Assets	<u>\$ 2,082,961</u>	<u>\$ 5,600,358</u>	<u>\$ 7,683,319</u>	<u>\$ 326,472</u>

The accompanying notes are an integral part of these financial statements.

VILLAGE OF LEXINGTON, MICHIGAN

STATEMENT OF ACTIVITIES FOR THE YEAR ENDED JUNE 30, 2008

Functions/Programs	Expenses	Program Revenues		
		Fees, Fines and Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary Government				
Governmental activities:				
General Government	164,513	36,531	-	52,550
Public Safety	423,236	157,377	-	-
Public Works	252,771	3,717	72,628	-
Recreation and Culture	21,786	24,692	-	-
Other Activities	273,852	-	-	-
Interest on Long-Term debt	14,331	-	-	-
Total governmental activities	<u>1,150,489</u>	<u>222,317</u>	<u>72,628</u>	<u>52,550</u>
Business type activities				
Sewer	191,587	246,453	-	-
Water	665,310	646,167	-	-
Mobile Home Park	420,596	696,172	-	-
Total business type activities	<u>1,277,493</u>	<u>1,588,792</u>	<u>-</u>	<u>-</u>
Total Primary Government	<u>2,427,982</u>	<u>1,811,109</u>	<u>72,628</u>	<u>52,550</u>
Component Units				
Downtown Development Authority	110,272	-	-	-
Total Component Units	<u>\$ 110,272</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

General revenues:
Property taxes
Grants and contributions not
restricted to specific programs
Franchise fees
Unrestricted investment income
Land use fee (in lieu of property taxes)
Insurance proceeds
Transfers
Total general revenues and transfers

Change in net assets

Net assets at beginning of year

Net assets at end of year

The accompanying notes are an integral part of these financial statements.

Net (Expense) Revenue and Change in Net Assets

Primary Government			Component Unit (DDA)
Governmental Activities	Business Type Activities	Total	
(75,432)	-	(75,432)	-
(265,859)	-	(265,859)	-
(176,426)	-	(176,426)	-
2,906	-	2,906	-
(273,852)	-	(273,852)	-
(14,331)	-	(14,331)	-
<u>(802,994)</u>	<u>-</u>	<u>(802,994)</u>	<u>-</u>
-	54,866	54,866	-
-	(19,143)	(19,143)	-
-	275,576	275,576	-
<u>-</u>	<u>311,299</u>	<u>311,299</u>	<u>-</u>
<u>(802,994)</u>	<u>311,299</u>	<u>(491,695)</u>	<u>-</u>
-	-	-	(110,272)
-	-	-	(110,272)
562,209	12,172	574,381	128,386
79,103	-	79,103	-
6,723	-	6,723	-
50,593	15,119	65,712	8,239
100,000	(100,000)	-	-
11,313	-	11,313	-
100,000	(100,000)	-	-
<u>909,941</u>	<u>(172,709)</u>	<u>737,232</u>	<u>136,625</u>
106,947	138,590	245,537	26,353
<u>1,976,014</u>	<u>5,461,768</u>	<u>7,437,782</u>	<u>300,119</u>
<u>\$ 2,082,961</u>	<u>\$ 5,600,358</u>	<u>\$ 7,683,319</u>	<u>\$ 326,472</u>

VILLAGE OF LEXINGTON, MICHIGAN

BALANCE SHEET GOVERNMENTAL FUNDS JUNE 30, 2008

	<u>General</u>	<u>Municipal Street</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
ASSETS				
Assets:				
Cash and cash equivalents	\$ 16,935	\$ 459,494	\$ 871,662	\$ 1,348,091
Investments	-	-	18,800	18,800
Receivables -				
Utilities	6,465	-	-	6,465
Accounts	20,818	-	575	21,393
Due from other governmental units -				
State	24,878	-	11,071	35,949
Local	872	-	-	872
Due from other funds	118,287	-	29,752	148,039
Due from Component unit	818	327	65	1,210
Advances to other funds	-	-	60,000	60,000
Prepaid expenditures	48,951	2,125	262	51,338
	<u>\$ 238,024</u>	<u>\$ 461,946</u>	<u>\$ 992,187</u>	<u>\$ 1,692,157</u>
Total Assets				
	<u>\$ 238,024</u>	<u>\$ 461,946</u>	<u>\$ 992,187</u>	<u>\$ 1,692,157</u>
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	\$ 157,272	\$ -	\$ 5,636	\$ 162,908
Accrued liabilities	9,532	-	169	9,701
Due to other funds	-	18,555	11,197	29,752
	<u>166,804</u>	<u>18,555</u>	<u>17,002</u>	<u>202,361</u>
Total Liabilities				
	<u>166,804</u>	<u>18,555</u>	<u>17,002</u>	<u>202,361</u>
Fund Balances:				
Reserved	69,596	2,125	262	71,983
Unreserved -				
Undesignated -				
General Fund	1,624	-	-	1,624
Special Revenue Funds	-	441,266	974,923	1,416,189
Total Equity	<u>71,220</u>	<u>443,391</u>	<u>975,185</u>	<u>1,489,796</u>
Total Liabilities and Fund Equity	<u>\$ 238,024</u>	<u>\$ 461,946</u>	<u>\$ 992,187</u>	<u>\$ 1,692,157</u>

The accompanying notes are an integral part of these financial statements.

VILLAGE OF LEXINGTON, MICHIGAN

**RECONCILIATION OF FUND BALANCES ON THE BALANCE SHEET FOR
GOVERNMENTAL FUNDS TO NET ASSETS OF GOVERNMENTAL ACTIVITIES
ON THE STATEMENT OF NET ASSETS
JUNE 30, 2008**

Fund Balances - total governmental funds	\$	1,489,796
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Amounts reported for governmental activities in the statement of net assets
are different because:

Capital assets used in governmental activities are not financial resources
and therefore are not reported in the governmental funds.

Capital assets		1,596,309
Accumulated depreciation	(833,955)

Long - term liabilities, including bonds payable, are not due and payable
in the current period and therefore are not reported in the
governmental funds.

Notes payable	(129,600)	
Accrued compensated absence	(38,936)	
Accrued interest	(653)	(169,189)

Net Assets of governmental activities	\$	<u>2,082,961</u>
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The notes to the financial statements are an integral part of this statement.

VILLAGE OF LEXINGTON, MICHIGAN

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES GOVERNMENTAL FUNDS FOR THE YEAR ENDED JUNE 30, 2008

	General	Municipal Street	Other Governmental Funds	Total Governmental Funds
Revenues:				
Taxes	\$ 327,336	\$ 128,600	\$ 106,273	\$ 562,209
Intergovernmental -				
State	84,150	-	67,581	151,731
Charges for services	183,415	-	13,350	196,765
Fines and forfeits	3,210	-	-	3,210
Interest and rent	8,576	16,268	25,749	50,593
Other	125,348	-	3,717	129,065
Total Revenues	<u>732,035</u>	<u>144,868</u>	<u>216,670</u>	<u>1,093,573</u>
Expenditures:				
Current -				
General Government	101,985	-	21,163	123,148
Public Safety	381,387	-	-	381,387
Public Works	68,193	18,242	239,280	325,715
Recreation and Cultural	17,368	-	-	17,368
Other	273,852	-	-	273,852
Capital Outlay	52,550	70,000	9,717	132,267
Debt Service				
Principal	18,200	-	-	18,200
Interest	14,361	-	-	14,361
Total Expenditures	<u>927,896</u>	<u>88,242</u>	<u>270,160</u>	<u>1,286,298</u>
Excess of revenues over (under) expenditures	<u>(195,861)</u>	<u>56,626</u>	<u>(53,490)</u>	<u>(192,725)</u>
Other Financing Sources (Uses):				
Transfers in	-	-	216,590	216,590
Transfer from component unit	52,550	-	-	52,550
Transfers out	-	(50,000)	(66,590)	(116,590)
Insurance proceeds	11,313	-	-	11,313
Total Other Financing Sources (Uses)	<u>63,863</u>	<u>(50,000)</u>	<u>150,000</u>	<u>163,863</u>
Net change in Fund Balance	(131,998)	6,626	96,510	(28,862)
Fund Balances at beginning of year	<u>203,218</u>	<u>436,765</u>	<u>878,675</u>	<u>1,518,658</u>
Fund Balances at end of year	<u><u>\$ 71,220</u></u>	<u><u>\$ 443,391</u></u>	<u><u>\$ 975,185</u></u>	<u><u>\$ 1,489,796</u></u>

The accompanying notes are an integral part of these financial statements.

VILLAGE OF LEXINGTON, MICHIGAN

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGE IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
JUNE 30, 2008**

Net change in fund balances - total governmental funds	\$(28,862)
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Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Capital outlay	239,487
Depreciation expense	(113,776)

Repayment of the principal of long-term debt consumes the current financial resources of governmental funds, however has no effect on net assets.

Principal payments on long term liabilities	18,200	
Decrease in accrued interest	30	
Increase in accrued compensated absences	(8,132)	10,098

Change in net assets of governmental activities	\$ 106,947
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The notes to the financial statements are an integral part of this statement.

VILLAGE OF LEXINGTON, MICHIGAN

STATEMENT OF NET ASSETS PROPRIETARY FUNDS JUNE 30, 2008

	Business Type Activities-Enterprise Funds			
	Sewer	Water	Mobile Home Park	Total
ASSETS:				
Current Assets:				
Cash and cash equivalents	\$ 26,026	\$ 227,912	\$ 112,113	366,051
Accounts receivable	22,178	93,956	14,938	131,072
Advances to other funds	-	-	266,500	266,500
Prepaid expenses	175	38,012	1,507	39,694
Total Current Assets	48,379	359,880	395,058	803,317
Property, Plant and Equipment:				
Property, plant and equipment	2,093,897	8,734,991	2,714,413	13,543,301
Less - accumulated depreciation	(826,976)	(2,309,801)	(786,435)	(3,923,212)
Total Property, Plant and Equipment (net of accumulated depreciation)	1,266,921	6,425,190	1,927,978	9,620,089
Construction in progress	189,945	-	-	189,945
Total Property, plant and equipment (net)	1,456,866	6,425,190	1,927,978	9,810,034
Total Assets	1,505,245	6,785,070	2,323,036	10,613,351
LIABILITIES:				
Current Liabilities:				
Accounts payable	195	1,830	2,191	4,216
Accrued expenses	-	2,572	888	3,460
Accrued interest	2,764	14,697	14,808	32,269
Bonds payable (current portion)	-	46,176	60,000	106,176
Notes payable (current portion)	18,310	55,000	60,350	133,660
Advances from other funds (current portion)	65,300	-	-	65,300
Due to other funds	118,287	-	-	118,287
Deposits payable	-	-	7,130	7,130
Unearned revenue	-	475,000	15,940	490,940
Total Current Liabilities	204,856	595,275	161,307	961,438
Long-Term Liabilities (less current portions):				
Accrued vacation and sick pay	-	30,789	2,444	33,233
Advances from other funds (net of current portion)	261,200	-	-	261,200
Bonds payable (net of current portion)	-	1,508,824	445,000	1,953,824
Notes payable (net of current portion)	363,419	594,971	844,908	1,803,298
Total Long-Term Liabilities	624,619	2,134,584	1,292,352	4,051,555
Total Liabilities	829,475	2,729,859	1,453,659	5,012,993
NET ASSETS:				
Investment in capital assets, net of related liabilities	630,350	4,220,219	517,720	5,368,289
Restricted for meter replacement	24,380	24,375	-	48,755
Unrestricted -				
Undesignated (Deficit)	21,040	(189,383)	351,657	183,314
Total Net Assets	\$ 675,770	\$ 4,055,211	\$ 869,377	\$ 5,600,358

The accompanying notes are an integral part of these financial statements.

VILLAGE OF LEXINGTON, MICHIGAN

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS PROPRIETARY FUNDS FOR THE YEAR ENDED JUNE 30, 2008

	Business Type Activities-Enterprise Funds			
	Sewer	Water	Mobile Home Park	Total
Operating Revenues:				
Charges for services	\$ 237,186	\$ 603,964	\$ 696,172	\$ 1,537,322
Other	-	1,230	-	1,230
Total Operating Revenues	<u>237,186</u>	<u>605,194</u>	<u>696,172</u>	<u>1,538,552</u>
Operating Expenses:				
Salaries	37,721	141,940	45,210	224,871
Fringe benefits	3,617	60,590	21,210	85,417
Administrative fees	24,863	52,069	61,546	138,478
Contracted services	15,117	9,928	18,567	43,612
Insurance	173	14,486	187	14,846
Repairs and maintenance	133	2,021	3,387	5,541
Equipment rental	12,633	3,900	2,028	18,561
Supplies	2,438	43,597	5,630	51,665
Utilities	29,679	37,757	71,967	139,403
Rubbish expenditures	-	-	26,016	26,016
Mobile home park taxes	-	-	6,625	6,625
Miscellaneous	2,141	5,414	1,531	9,086
Depreciation	46,282	223,821	79,343	349,446
Total Operating Expenses	<u>174,797</u>	<u>595,523</u>	<u>343,247</u>	<u>1,113,567</u>
Operating Income	<u>62,389</u>	<u>9,671</u>	<u>352,925</u>	<u>424,985</u>
Non-Operating Revenues (Expenses):				
Interest income	2,373	6,316	6,430	15,119
Interest expense	(16,790)	(69,787)	(77,349)	(163,926)
Tap-in fees	-	12,780	-	12,780
Meter charge	9,267	8,630	-	17,897
Land use fee	-	-	(100,000)	(100,000)
Antenna Leases	-	19,563	-	19,563
Property taxes	-	12,172	-	12,172
Total Non-Operating Revenues (Expenses)	<u>(5,150)</u>	<u>(10,326)</u>	<u>(170,919)</u>	<u>(186,395)</u>
Net Income Before Transfers	57,239	(655)	182,006	238,590
Transfers:				
Transfers in	20,000	-	-	20,000
Transfers out	-	(20,000)	(100,000)	(120,000)
Change in Net Assets	77,239	(20,655)	82,006	138,590
Net Assets at beginning of year	<u>598,531</u>	<u>4,075,866</u>	<u>787,371</u>	<u>5,461,768</u>
Net Assets end of year	<u><u>\$ 675,770</u></u>	<u><u>\$ 4,055,211</u></u>	<u><u>\$ 869,377</u></u>	<u><u>\$ 5,600,358</u></u>

The accompanying notes are an integral part of these financial statements.

VILLAGE OF LEXINGTON, MICHIGAN

STATEMENT OF CASH FLOWS PROPRIETARY FUNDS FOR THE YEAR ENDED JUNE 30, 2008

	Business Type Activities-Enterprise Funds			
	Sewer	Water	Mobile Home Park	Total
Cash Flows From Operating Activities:				
Cash receipts from customers	\$ 236,109	\$ 576,372	\$ 706,752	\$ 1,519,233
Cash payments to suppliers	(152,531)	(244,547)	(202,834)	(599,912)
Cash payments to employees	(41,338)	(202,812)	(65,924)	(310,074)
Net Cash Provided by Operating Activities	<u>42,240</u>	<u>129,013</u>	<u>437,994</u>	<u>609,247</u>
Cash Flows From Non-capital Financing Activities:				
Land use fee	-	-	(100,000)	(100,000)
Change in due to/from other funds	(55,000)	-	55,000	-
Transfers from/to other funds	20,000	(20,000)	(100,000)	(100,000)
Net Cash Used by Non-Capital Financing Activities	<u>(35,000)</u>	<u>(20,000)</u>	<u>(145,000)</u>	<u>(200,000)</u>
Cash Flows From Capital and Related Financing Activities:				
Principle payments	(18,310)	(102,585)	(115,351)	(236,246)
Interest payments	(16,914)	(70,311)	(78,371)	(165,596)
Property taxes	-	12,172	-	12,172
Tap-in fees	-	12,780	-	12,780
Meter charge	9,267	8,630	-	17,897
Antenna Leases	-	19,563	-	19,563
Acquisition and construction of capital assets	(4,908)	(12,595)	(9,115)	(26,618)
Net Cash Used by Capital and Related Financing Activities	<u>(30,865)</u>	<u>(132,346)</u>	<u>(202,837)</u>	<u>(366,048)</u>
Cash Flows From Investing Activities:				
Interest earned	2,373	6,316	6,430	15,119
Net Cash Provided by Investing Activities	<u>2,373</u>	<u>6,316</u>	<u>6,430</u>	<u>15,119</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(21,252)	(17,017)	96,587	58,318
Cash and Cash Equivalents at Beginning of Year	<u>47,278</u>	<u>244,929</u>	<u>15,526</u>	<u>307,733</u>
Cash and Cash Equivalents at End of Year	<u>\$ 26,026</u>	<u>\$ 227,912</u>	<u>\$ 112,113</u>	<u>\$ 366,051</u>
Reconciliation of Net Income (Loss) to Net Cash Provided by Operating Activities:				
Operating income for the year	\$ 62,389	\$ 9,671	\$ 352,925	\$ 424,985
Adjustments to reconcile operating income to net cash provided by operating activities -				
Depreciation	46,282	223,821	79,343	349,446
Change in assets and liabilities:				
Receivable	(1,077)	(3,822)	13,981	9,082
Prepaid	(60)	10,771	1,077	11,788
Accounts payable/accrued expenses	(65,294)	(86,428)	(5,931)	(157,653)
Unearned revenue	-	(25,000)	(956)	(25,956)
Due to component units	-	-	-	-
Deposits	-	-	(2,445)	(2,445)
Net Cash Provided By Operating Activities	<u>\$ 42,240</u>	<u>\$ 129,013</u>	<u>\$ 437,994</u>	<u>\$ 609,247</u>

The accompanying notes are an integral part of the financial statements

VILLAGE OF LEXINGTON, MICHIGAN
Sanilac County, Michigan

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

A. Reporting Entity -

The Village of Lexington, Michigan, was incorporated as a General Law Village in 1855, under provisions of the constitution and general law of the State of Michigan, with its Charter provided by Act 3 of 1895. The Village is located in Sanilac County. The Village operates under an elected Village Council, which consists of the President and six Council members, with the daily activities operated by the Village Manager, Clerk and Treasurer. The Village provides services to its more than 1,104 residents in many areas including law enforcement, water, sewer, cemetery and parks and recreation.

These financial statements present the Village and its component units, entities for which the government is considered to be financially accountable. Blended component units, although legally separate entities, are, in substance, part of the government's operations. Discretely presented component units are reported in a separate column in the government-wide financial statements to emphasize that they are legally separate from the Village.

DISCRETELY PRESENTED COMPONENT UNIT -

DOWNTOWN DEVELOPMENT AUTHORITY (DDA)- The DDA is controlled by a nine member Council, who are appointed by the Village Council. The DDA is responsible for the creation of a development and financing plan for the Downtown district or a development area within the district to promote economic growth. The DDA must obtain Village Council approval of all development and financial plans. The annual operating budget and any modification also requires the approval of the Village Council.

The Downtown Development Authority was included in the scope of the audit of the basic financial statements. Separate audited financial statements for this component unit were not issued.

JOINTLY GOVERNED ORGANIZATION -

VILLAGE OF LEXINGTON BUILDING AUTHORITY - The Authority was created in 1979 to facilitate the financing, construction and operation of a municipal building for the use of both the Village and the Township of Lexington. The Authority operates under a board of commissioners consisting of 3 members appointed by the Village Council. Financing of the Authority, to include debt retirement and operational expenses consists of the Village contributing 80% and the Township 20%. The transactions of the Building Authority are subject to a separate audit and are not included in this report.

VILLAGE OF LEXINGTON, MICHIGAN
Sanilac County, Michigan

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (cont'd):

B. Government-wide and fund financial statements -

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support. Likewise, the *primary government* is reported separately from certain legally separate *component units* for which the primary governments financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

C. Measurement focus, basis of accounting, and financial statement presentation-

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year they are levied and due. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. Agency funds, a type of fiduciary fund, are unlike all other types of funds, reporting only assets and liabilities, thus agency funds cannot be said to have a measurement focus. They do, however, use the accrual basis of accounting to recognize receivables and payables.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Village considers all revenues available if they are normally collected within 60 days after the year-end. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

VILLAGE OF LEXINGTON, MICHIGAN
Sanilac County, Michigan

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (cont'd):

State shared revenue, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and therefore have been recognized as revenues of the current fiscal period. Property taxes, which are levied on July 1, and due on September 14, are recognized as revenue in the year due. Also, only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The Village reports the following major governmental funds:

General Fund - is the Village's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

Municipal Street Fund - is used to account for street operations not provided for under Act 51 of the Public Acts of 1951, as amended.

The Village reports the following major proprietary funds:

Sewer Fund - is used to account for the operations that provide sanitary sewer service to the Village residents.

Water Fund - is used to account for the operations that provide water to both Village residents and the Lexington-Worth Townships Utility Authority.

Mobile Home Park Fund - is used to account for the operations of a mobile home park owned by the Village.

Additionally, the government reports the following fund type:

Special Revenue Funds - are used to account for the proceeds of specific revenue sources (other than major capital projects) that are legally restricted to expenditures for specified purposes.

Private sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for the business-type activities and enterprise funds, subject to this same limitation. The government has elected not to follow subsequent private-sector guidance.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges between the government's enterprise funds and various other functions of the government. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

VILLAGE OF LEXINGTON, MICHIGAN
Sanilac County, Michigan

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (cont'd):

Amounts reported as *program revenues* include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguish operating revenue and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal on-going operations. The principal operating revenues of the Enterprise Funds are charges to customers for sale, rent and services. Operating expenses for Enterprise Funds include costs of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the Village's policy to use restricted resources first, then unrestricted resources as they are needed.

D. Assets, Liabilities and Net Assets or Equity -

Deposits and Investments -

The Village maintains a common checking account for its operation funds. Each participating fund reports its share separately. To the extent that some funds have negative balances in their share of common cash, such negative balances represent temporary interfund borrowings and, at June 30, have been recorded as interfund payables to funds with positive balances.

The Village's cash and cash equivalents are considered to be cash on hand, demand deposits, savings, certificates of deposit with original maturities of three months or less from the date of acquisition and financial institution pooled funds. The financial institution pool funds have the general characteristics of demand deposit accounts in that the Village may deposit additional cash at any time and effectively may withdraw cash at any time without prior notice or penalty.

Receivables and Payables -

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances".

Advances between funds, as reported in the fund financial statements, are offset by a fund balance reserve account in applicable governmental funds to indicate that they are not available for appropriation and are not expendable available financial resources.

All trade and property tax receivables are shown net of an allowance for uncollectible.

VILLAGE OF LEXINGTON, MICHIGAN
Sanilac County, Michigan

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (cont'd):

Inventories and Prepaid Items -

All inventories are valued at cost using the first in/first out (FIFO) method. Inventories of governmental funds are recorded as expenditures when purchased.

Certain payments to vendors reflect costs applicable to further accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

Property Tax Calendar -

The Village's property tax is levied each July 1 on the taxable value of property located in the Village as of the preceding December, as adjusted by the March and July Board of Reviews. Taxes are collected through September 14.

Capital Assets -

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$1,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed.

As permitted by GASB Statement No. 34, the Village has elected not to report governmental infrastructure assets (principally roads and sidewalks) acquired prior to July 1, 2003.

Capital assets of the primary government are depreciated using the straight-line method over the following estimated useful lives.

<u>Primary Government -</u>	<u>Years</u>
Building/improvements	40
Utility Systems	40
Road Systems/Other	
Infrastructure	8-25
Equipment	25

VILLAGE OF LEXINGTON, MICHIGAN
Sanilac County, Michigan

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (cont'd):

Compensated Absences -

In accordance with contracts negotiated with the various employee groups of the Village, individual employees have vested rights upon termination of employment to receive payment for unused vacation and sick leave under formulas and conditions specified in the contracts. All vested vacation and sick leave is accrued when incurred in the government-wide and proprietary fund financial statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements.

Long-Term Obligations -

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statements of net assets. Bond premiums and discounts, as well as issuance costs, if significant, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources, while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Fund Equity -

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Estimates -

In preparing financial statements in conformity with accounting principles generally accepted in the United States of America, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

VILLAGE OF LEXINGTON, MICHIGAN
Sanilac County, Michigan

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008

NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY:

Budgetary Information -

The General and Special Revenue Funds budgets shown in the financial statements were prepared on a basis consistent with accounting principles generally accepted in the United States of America and on the same modified accrual basis used to reflect actual results.

The Village Manager and Finance Committee prepare the proposed operating budgets for the year commencing the following July 1. The operating budgets include proposed expenditures and resources to finance them.

Prior to June 30, the proposed budgets are presented to the Village Council. The Council holds a public hearing and may add to, subtract from, or change appropriations. The budget is then legally enacted through passage of a Village Council Resolution.

The approved budgets of the Village were adopted for the General and Special Revenue Funds at the function level. These are the enacted levels under the State of Michigan Uniform Budgeting and Accounting Act and the legally adopted levels of the budget. State statutes do not require legally adopted budgets for debt service or capital projects funds.

Budgets are maintained throughout the year at the account level, to provide additional control in preventing over-expenditures at the legally adopted levels. Amendments at the function level for the General and Special Revenue Funds must be approved by the Village Council.

The Village does not employ encumbrance accounting as an extension of formal budgetary integration. All annual appropriations lapse at year-end.

Budget amounts are reported as originally adopted and as final amended by the Village Council, during the year.

Michigan Public Acts 621 of 1978, Section 18(1), as amended, provides that a local government unit shall not incur expenditures in excess of the amount appropriated.

During fiscal year ended June 30, 2008, the Village incurred expenditures in the General and Special Revenue Funds, which were in excess of the amounts appropriated as follows:

	<u>Final Amended Budget</u>	<u>Amount Expended</u>	<u>Budget Variance</u>
General Fund -			
Public Works	\$ 35,074	\$ 68,193	\$ 33,119
Other	238,573	273,852	35,279
Capital Outlay	-	52,550	52,550
Municipal Street Fund -			
Public Works	80,255	88,242	7,987
County Road Fund -			
Public Works	111,525	118,994	7,469
Capital Equipment Fund -			
Capital Outlay	-	9,717	9,717

Unrestricted Net Assets Deficit -

The Water Fund had an unrestricted net assets deficit of \$189,383 at June 30, 2008.

VILLAGE OF LEXINGTON, MICHIGAN

Sanilac County, Michigan

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2008

NOTE 3 - DEPOSITS AND INVESTMENTS:

Authorized Deposits and Investments -

Act 217 PA 1982, as amended, authorizes the Village to deposit in certificates of deposit, savings accounts, depository accounts or depository receipts of a state or nationally chartered bank or a state or federally chartered savings and loan association, savings bank or credit union whose deposits are insured by an agency of the United States government and which maintains a principal office or branch office located in this state under the laws of this state or the United States, but only if the bank, savings and loan association, savings bank or credit union is eligible to be depository of surplus funds belonging to the state under Section 5 or 6 of Act 105 of the Public Acts 1855, as amended, by section 21.145 and 21.146 of the Michigan Compiled Laws.

Michigan Public Act 20 of 1994, as amended, authorizes the Village to invest surplus funds in bonds, securities and other direct obligations of the United States government or an agency or instrumentality of the United States, certificates of deposit, savings accounts, deposit accounts or depository receipts of a financial institution only if the bank, savings and loan association or credit union is eligible to be a depository of funds belonging to the state, bankers' acceptances of the United States banks, commercial paper rated at the time of purchase within the highest classification established by not less than two standard rating services, which mature not more than 270 days after the date of purchase; mutual funds registered under the investment company Act of 1940, with the authority to purchase only investment vehicles that are legal for direct investment by a public corporation; investment pools through an interlocal agreement under the Urban Cooperation Act of 1967, investment pools are organized under the surplus funds investment pool act, 1982 PA 3657, 129.111 to 129.118.

The following is a summary of the financial statement presentation of deposits and investments at June 30, 2008:

	<u>Primary Government</u>	<u>Component Unit</u>	<u>Reporting Entity</u>
Petty Cash	\$ 400	\$ -	\$ 400
Deposits			
Cash in Checking/Money Market	1,419,411	318,319	1,737,730
Certificates of Deposits	<u>123,894</u>	<u>10,509</u>	<u>134,403</u>
	<u>1,543,305</u>	<u>328,828</u>	<u>1,872,133</u>
Investments -			
Investment Trust Funds	<u>189,237</u>	-	<u>189,237</u>
Grand Total	<u>\$ 1,732,942</u>	<u>\$ 328,828</u>	<u>\$ 2,061,770</u>

Reconciliation to Statement of Net Assets

Reported as Cash and Cash Equivalents -

Petty Cash	\$ 400	\$ -	\$ 400
Cash in Checking	328,881	226,303	555,184
Cash in Money Market	1,090,530	92,016	1,182,546
Certificate of Deposits	105,094	10,509	115,603
Investment Trust Funds	<u>189,237</u>	<u>-</u>	<u>189,237</u>
	<u>1,714,142</u>	<u>328,828</u>	<u>2,042,970</u>

Reported as Investments -

Certificates of Deposit	<u>18,800</u>	<u>-</u>	<u>18,800</u>
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Grand Total - Statement of Net Assets	<u>\$ 1,732,942</u>	<u>\$ 328,828</u>	<u>\$ 2,061,770</u>
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VILLAGE OF LEXINGTON, MICHIGAN
Sanilac County, Michigan

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008

NOTE 3 - DEPOSITS AND INVESTMENTS - (cont'd):

Deposits with Financial Institutions –

The Village has deposits and investments that are maintained for its primary government and component unit.

Michigan Public Acts authorize the units of local government in Michigan to deposit in the accounts of federally insured banks, insured credit unions, and savings and loan associations. All deposits of the Village are at federally insured banks in the State of Michigan in the name of the Village.

Custodial Credit Risk – Deposits – is the risk that in the event of a bank failure, the Village's deposits may not be returned.

Federal Deposit Insurance Corporation (FDIC) regulations provide that deposits of governmental units are to be separately insured for the amount of \$100,000 for deposits in an insured bank for savings deposits and \$100,000 for demand deposits. As of October 3, 2008 the threshold amount is \$250,000.

As of June 30, 2008, the carrying amount of the Village deposits is \$1,872,533, and the bank balance is \$1,914,191. Of the bank balance, \$224,664 is covered by Federal Depository Insurance, with the remaining \$1,689,527 exposed to credit risk since it is uninsured and uncollateralized.

The Village believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all bank deposits. As a result, the Village evaluates each financial institution it deposits Village Funds with and assesses the level of risk of each institution. The Village uses only those financial institutions with an acceptable estimated risk level as depositories.

Investments -

Credit Risk – Investments – is the risk that an issuer or other counterparty to an investment will not fulfill its obligation. The Village Investment Policy limits the types of investments the Village can purchase to those authorized by state law.

As of June 30, 2008, the Village of Lexington had \$189,237 invested in The Cadre Liquid Assets Fund – Money Market Series. The fund invests in asset-backed commercial paper, commercial paper, U.S. Government and agency obligations and repurchase agreements. The Cadre Liquid Assets Fund – Money Market Series has the ratings from Standard & Poor's; AAA, A-1+, and A-1.

Custodial Credit Risk – Investments – is the risk that in the event of the failure of the counterparty, the Village will not be able to recover the value of its investments that are in the possession of another party. The Village's investment policy does not address custodial credit risk.

VILLAGE OF LEXINGTON, MICHIGAN

Sanilac County, Michigan

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2008

NOTE 3 - DEPOSITS AND INVESTMENTS - (cont'd):

Interest Rate Risk – Investments – is the risk that the value of investments will decrease as a result of a rise in interest rates. The Cadre Liquid Assets Fund – Money Market Series investment purchases have maturities of 397 days or less. The portfolio maintains a dollar-weighted average maturity of not greater than ninety days. The Village Investment policy states that the investment portfolio shall be designed with the objective of obtaining a rate of return throughout the budgetary and economic cycles, taking into account the investment risk constraints and the cash flow characteristics of the portfolio.

Concentration of Credit Risk – Investments – is the risk of loss attributed to the magnitude of the Village's investment in a single issuer. The Village's investment policy addresses concentration of credit risk in that investments must be diversified.

As of June 30, 2008, the Village has \$184,237 invested in the Cadre Liquid Asset Fund, an external investment pool. The fund was established to mainly invest in government securities.

The investment pool has been reported in the financial statements as a cash equivalent because it has the general characteristics of demand deposit accounts in that the Village may deposit additional cash at any time and effectively may withdraw cash at any time without prior notice or penalty.

NOTE 4 - TAXES:

The Village property taxes are levied each July on the assessment valuation of the property in the Village as of the preceding December 31, as adjusted by the March and July Board of Review.

Assessed values are established annually by the respective Village/Township and are equalized by the State at an estimated percentage of the current market value. Real and personal property for the Village of Lexington for the fiscal year 2008 had a taxable value of \$48,107,285. The millage rates levied by the Village were 7.7309 for General Operating, 3.0922 for Municipal Streets, 0.6182 for Cemetery and 0.2693 for the Water Tower Debt.

The County of Sanilac has established a Tax Collection Revolving Fund whereby all local units of government are paid for the delinquent real property taxes each year.

NOTE 5 - RECEIVABLES:

	Governmental Activities	Business-type Activities
Accounts	\$ 27,858	\$ 131,072
Intergovernmental	36,821	-
Component – DDA	1,210	-
	<u>\$ 65,889</u>	<u>\$ 131,072</u>

Governmental funds report deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not earned. At the end of the current fiscal year there is no governmental funds deferred revenue.

VILLAGE OF LEXINGTON, MICHIGAN
Sanilac County, Michigan

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008

NOTE 6 - INTERFUND RECEIVABLE, PAYABLE AND TRANSFERS:

Interfund receivable and payable balances described as Due From and Due To Other Funds on the Balance Sheet reflect amounts due or owed to a particular fund by another fund of the Village. These amounts include only short-term obligations on open accounts, and not current portions of long-term loans. The Advances To/From other funds are interfund loans that are payable back within five years with interest. A summary of these balances by fund type at June 30, 2008, is as follows:

	<u>Due From</u>	<u>Due To</u>
Primary Government:		
Due To/From Other Funds -		
General Fund -		
Enterprise Funds -		
Sewer Fund	\$ 118,287	\$ -
Special Revenue Funds -		
Major Street Fund -		
County Road Fund	9,491	-
Municipal Street Fund	3,990	-
Local Street Fund	-	1,706
County Road Fund -		
Major Street Fund	-	9,491
Local Street Fund -		
Major Street Fund	1,706	-
Municipal Street Fund	14,565	-
Municipal Street Fund -		
Major Street Fund	-	3,990
Local Street Fund	-	14,565
Enterprise Funds -		
Sewer Fund -		
General Fund	<u>-</u>	<u>118,287</u>
 Total Due To/From Other Funds	 <u>\$ 148,039</u>	 <u>\$ 148,039</u>
 Due To/From Primary Government & Component Units -		
Primary Government -		
General Fund	\$ 818	\$ -
Cemetery Fund	65	-
Municipal Street Fund	327	-
Component Unit -		
Downtown Development Authority	<u>-</u>	<u>1,210</u>
 Total Due To/From Primary Government & Component Unit	 <u>\$ 1,210</u>	 <u>\$ 1,210</u>
 Advances To/From Other Funds -		
Sewer Fund (Enterprise Fund)	Capital Equipment Fund (Special Revenue Fund)	\$ 60,000
Sewer Fund (Enterprise Fund)	Mobile Home Fund (Enterprise Fund)	<u>266,500</u>
 Total Advances To/From Other Funds		 <u>\$ 326,500</u>

VILLAGE OF LEXINGTON, MICHIGAN
Sanilac County, Michigan

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008

NOTE 6 - INTERFUND RECEIVABLE, PAYABLE AND TRANSFERS - (cont'd):

Interfund transfers are to support operations in those funds. Balances for the year ended June 30, 2008 were as follows:

<u>Transfers In</u>	<u>Transfers Out</u>	<u>Amount</u>
Capital Equipment	Mobile Home Park	\$ 100,000
Major Street	Municipal Street	25,000
Local Street	Major Street	11,590
Local Street	County Road	55,000
County Road	Municipal Street	<u>25,000</u>
		<u>\$ 216,590</u>
Transfers from Component Unit:		
General Fund	DDA	<u>\$ 52,550</u>

NOTE 7 - CAPITAL ASSETS:

Primary Government

Capital asset activity of the primary government for the year ended June 30, 2008 was as follows:

	<u>Balance July 1, 2007</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance June 30, 2008</u>
Governmental activities:				
Capital assets, not being depreciated:				
Land	\$ 28,006	\$ -	\$ -	\$ 28,006
Construction in progress	<u>31,274</u>	<u>59,244</u>	<u>-</u>	<u>90,518</u>
Total capital assets, not being depreciated	<u>59,280</u>	<u>59,244</u>	<u>-</u>	<u>118,524</u>
Capital assets, being depreciated:				
Buildings and Building Improvements	346,026	-	-	346,026
Improvements other than buildings	277,866	97,417	-	375,283
Machinery and equipment	193,177	82,826	-	276,003
Vehicles	<u>499,073</u>	<u>-</u>	<u>18,600</u>	<u>480,473</u>
Total capital assets being depreciated	<u>1,316,142</u>	<u>180,243</u>	<u>18,600</u>	<u>1,477,785</u>
Less accumulated depreciation for:				
Buildings and Building Improvements	254,938	6,435	-	261,373
Improvements other than buildings	65,231	23,047	-	88,278
Machinery and equipment	94,160	41,779	-	135,939
Vehicles	<u>324,450</u>	<u>42,515</u>	<u>18,600</u>	<u>348,365</u>
Total accumulated depreciation	<u>738,779</u>	<u>113,776</u>	<u>18,600</u>	<u>833,955</u>
Total capital assets being depreciated, net	<u>577,363</u>	<u>66,467</u>	<u>-</u>	<u>643,830</u>
Governmental activities capital assets, net	<u>\$ 636,643</u>	<u>\$ 125,711</u>	<u>\$ -</u>	<u>\$ 762,354</u>

VILLAGE OF LEXINGTON, MICHIGAN
Sanilac County, Michigan

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008

NOTE 7 - CAPITAL ASSETS - (cont'd):

	Balance July 1, 2007	Additions	Deletions	Balance July 30, 2008
Business-type Activities:				
Capital assets, not being depreciated:				
Land	\$ 17,495	\$ -	\$ -	\$ 17,495
Construction in progress	<u>189,945</u>	<u>-</u>	<u>-</u>	<u>189,945</u>
Total capital assets, not being depreciated	<u>207,440</u>	<u>-</u>	<u>-</u>	<u>207,440</u>
Capital assets, being depreciated:				
Buildings and improvements	51,889	-	-	51,889
Mobile Home Park	2,649,998	9,115	-	2,659,113
Utility Systems	10,540,792	4,908	-	10,545,700
Machinery and equipment	<u>256,509</u>	<u>12,595</u>	<u>-</u>	<u>269,104</u>
Total capital assets being depreciated	<u>13,499,188</u>	<u>26,618</u>	<u>-</u>	<u>13,525,806</u>
Less accumulated depreciation for:				
Buildings and improvements	21,834	2,929	-	24,763
Mobile Home Park	675,077	75,191	-	750,268
Utility Systems	2,748,880	257,839	-	3,006,719
Machinery and equipment	<u>127,975</u>	<u>13,487</u>	<u>-</u>	<u>141,462</u>
Total accumulated depreciation	<u>3,573,766</u>	<u>349,446</u>	<u>-</u>	<u>3,923,212</u>
Total capital assets being depreciated, net	<u>9,925,422</u>	<u>(322,828)</u>	<u>-</u>	<u>9,602,594</u>
Business activities capital assets, net	<u>\$ 10,132,862</u>	<u>\$ (322,828)</u>	<u>\$ -</u>	<u>\$ 9,810,034</u>

Depreciation expense was charged to functions/programs of the primary government as follows:

Governmental Activities:	
General Government	\$ 36,325
Public Safety	41,881
Public Works	31,152
Recreation and Cultural	<u>4,418</u>
Total Depreciation Expense-Governmental activities	<u>\$ 113,776</u>
Business-type Activities:	
Sewer	\$ 46,282
Water	223,821
Mobile Home Park	<u>79,343</u>
Total Business-type Activities	<u>\$ 349,446</u>

VILLAGE OF LEXINGTON, MICHIGAN
Sanilac County, Michigan

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008

NOTE 8 - LONG-TERM LIABILITIES:

PRIMARY GOVERNMENT -

The following is a summary of changes in the long-term liabilities (including current portions) of the Primary Government for the year ended June 30, 2008:

	Balance <u>July 1, 2007</u>	<u>Additions</u>	<u>Reductions</u>	Balance <u>June 30, 2008</u>	Due Within <u>One Year</u>
<u>Governmental Activities:</u>					
Governmental Funds -					
Installment purchase	\$ 23,000	\$ -	\$ 11,000	\$ 12,000	\$ 12,000
Capital lease payable	124,800	-	7,200	117,600	7,200
Accrued sick and vacation	<u>30,804</u>	<u>8,132</u>	<u>-</u>	<u>38,936</u>	<u>-</u>
Total Governmental Funds	<u>178,604</u>	<u>8,132</u>	<u>18,200</u>	<u>168,536</u>	<u>19,200</u>
<u>Business-type Activities:</u>					
1994 General Obligation Unlimited Tax					
Bonds (Water Tower)	40,000	-	10,000	30,000	15,000
1996 General Obligation Unlimited Tax					
Bonds (Mobile Home Park)	560,000	-	55,000	505,000	60,000
1999 WSS Bonds/Contracts Payable	1,575,000	-	50,000	1,525,000	55,000
2002 Promissory Note (MHP)	965,609	-	60,351	905,258	60,350
2003 Promissory Note (Water)	1,081,186	-	49,486	1,031,700	49,486
Note payable (Water)	11,409	-	11,409	-	-
Accrued sick and vacation	<u>32,805</u>	<u>428</u>	<u>-</u>	<u>33,233</u>	<u>-</u>
Total Business-type Activities	<u>4,266,009</u>	<u>428</u>	<u>236,246</u>	<u>4,030,191</u>	<u>239,836</u>
	<u>\$ 4,444,613</u>	<u>\$ 8,560</u>	<u>\$ 254,446</u>	<u>\$ 4,198,727</u>	<u>\$ 259,036</u>

Significant details regarding outstanding long-term debt (including current portions) are presented as follows:

Installment Purchase:

The Village purchased a fire truck on February 1, 1998.

The final annual payment of \$12,000 is due in 2009,

with interest of 2.5 percent payable semi-annually.

\$ 12,000

VILLAGE OF LEXINGTON, MICHIGAN

Sanilac County, Michigan

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2008

NOTE 8 - LONG-TERM LIABILITIES - (cont'd):

Capital Lease Payable:

The Village entered into a long-term lease agreement with the Village of Lexington's building authority.

See Note 9 for additional information.

\$ 117,600

Accrued Vacation and Sick Pay:

In accordance with contracts negotiated with the various employee groups of the Village, individual employees have vested rights upon termination of employment to receive payments for unused vacation and sick leave under formulas and conditions specified in the contracts. The dollar amount of these vested rights has been accrued on the financial statements.

\$ 72,169

1994 General Obligation Water System Unlimited Tax Bonds:

The \$130,000 1994 General Obligation Water System Unlimited Tax Bonds, dated March 1, 1994, were issued for construction of a new water storage tank. Annual principal payments are \$15,000 through October 1, 2009, with interest of 6.15 percent payable semi-annually.

The obligation is being paid from ad valorem taxes.

\$ 30,000

1996 General Obligation Unlimited Tax Bonds:

The \$995,000 1996 General Obligation Unlimited Tax Bonds, dated March 1, 1996, were issued for public improvements at the Village's campground and mobile home park. Annual principal payments range from \$60,000 to \$65,000 through October 1, 2015, with interest ranging from 5.00 to 5.35 percent payable semi-annually. It is the intention of the Village Council to pay the obligation from operating revenue.

\$ 505,000

Water Fund Contracts Payable -

Pursuant to provisions of Act 185, Public Acts of Michigan, 1957, as amended, the Village of Lexington and other applicable municipalities and the County of Sanilac have entered into contracts whereby the Village has agreed to pay the County annual installments to retire the Village's portion of a bond issue, plus interest. In order to pay such amounts to the County, the Village is obligated to the extent necessary, to levy ad valorem taxes without limitation as to the rate or amount on all taxable property. It is the intention of the Village Council to pay the Village's portion of the obligation from debt retirement charges and operating revenue.

VILLAGE OF LEXINGTON, MICHIGAN
Sanilac County, Michigan

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008

NOTE 8 - LONG-TERM LIABILITIES - (cont'd):

In order to finance the cost of the improvements the Sanilac County Department of Public Works has participated in the Drinking Water Revolving Fund through which the Department of Environmental Quality Bonds, dated September 30, 1999, have been sold in the amount of \$1,904,339. The Village makes the debt service payments directly to the State of Michigan which includes interest at 2.5% payable semiannually.

\$ 1,525,000

Year	1994 General Obligation Bond		1996 General Obligation Bond		Drinking Water Revolving Loan	
	Principal	Interest	Principal	Interest	Principal	Interest
2009	\$ 15,000	\$ 1,380	\$ 60,000	\$ 25,035	\$ 55,000	\$ 37,438
2010	15,000	461	60,000	22,006	55,000	36,062
2011	-	-	60,000	18,916	55,000	34,688
2012	-	-	65,000	15,633	55,000	33,313
2013	-	-	65,000	12,171	60,000	31,875
2014-2018	-	-	195,000	15,650	315,000	136,312
2019-2023	-	-	-	-	355,000	94,688
2024-2028	-	-	-	-	400,000	47,376
2029-2030	-	-	-	-	175,000	4,437
	<u>\$ 30,000</u>	<u>\$ 1,841</u>	<u>\$ 505,000</u>	<u>\$ 109,411</u>	<u>\$1,525,000</u>	<u>\$ 456,189</u>

SDS and WSS Revenue Bonds Refinanced:

In August 2002 the Village of Lexington refinanced its 1996 SDS Revenue Bond of \$600,000 and its 1996 WSS Revenue Bond of \$586,000 for constructing additions and improvements to the mobile home park with a promissory note. The principal refinanced was \$1,207,011 at an interest rate of 5.30%, due semi-annually. Principal payments are due annually starting September 1, 2003, in the amount of \$60,350.

\$ 905,258

SDS and WSS Revenue Bonds Refinanced –

In August 2003 the Village of Lexington refinanced its 1984 SDS Revenue Bond of \$540,000, 1993 A WSS Revenue Bonds of \$95,000 and 1993 B WSS Revenue Bonds of \$755,000 for constructing and improvements to the sewer and water system with a promissory note. The principal refinanced was \$1,229,643 at an interest rate of 4.25%, due semi-annually. Principal payments are due annually starting September 1, 2004, in the amount of \$49,486.

\$ 1,031,700

VILLAGE OF LEXINGTON, MICHIGAN
Sanilac County, Michigan

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008

NOTE 8 - LONG-TERM LIABILITIES - (cont'd):

The annual requirements to amortize long-term liabilities outstanding at June 30, 2008:

<u>Year</u>	<u>2002 Promissory Note</u>		<u>2003 Promissory Note</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2009	\$ 60,350	\$ 43,794	\$ 49,486	\$ 43,399
2010	60,351	40,551	49,486	41,266
2011	60,350	37,406	49,486	39,134
2012	60,351	34,065	49,486	37,100
2013	60,350	30,822	49,486	34,869
2014-2018	301,753	105,526	247,429	142,437
2019-2023	301,753	26,024	247,429	89,105
2024-thereafter	<u>-</u>	<u>-</u>	<u>289,412</u>	<u>36,690</u>
	<u>\$ 905,258</u>	<u>\$ 318,188</u>	<u>\$1,031,700</u>	<u>\$ 464,000</u>

NOTE 9 - BUILDING AUTHORITY LEASE PAYABLE:

The Village entered into a lease agreement with the Village of Lexington Building Authority to help finance the payment of debt and maintenance on the building. Upon retirement of the debt, title of the building will transfer to both the Village and the Township of Lexington as tenants in common reflecting an 80%, 20% interest, respectively. In accordance with FASB Statement 13, the building (80%) is recorded in the financial statements of the Village.

Future minimum lease payments of the Village's portion of the debt owed on the building are as follows:

<u>Year Ended</u> <u>June 30,</u>	
2009	13,080
2010	13,520
2011	13,120
2012	13,520
2013	13,080
2014-2020	<u>92,720</u>
	159,040
Less – interest	(41,440)
Long-Term Lease Payable	<u>\$ 117,600</u>

VILLAGE OF LEXINGTON, MICHIGAN
Sanilac County, Michigan

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008

NOTE 9 - BUILDING AUTHORITY LEASE PAYABLE - (cont'd):

Following is a summary of the Government-wide Statement of Net Assets and Government-wide Statement of Activities of the Village of Lexington Building Authority as of and for the fiscal year ended June 30, 2008:

Assets	\$ 230,283
Liabilities	<u>147,201</u>
Net Assets	<u>\$ 83,082</u>
Revenues	\$ 46,336
Expenses	<u>(38,422)</u>
Change in Net Assets	<u>\$ 7,914</u>

NOTE 10 - EMPLOYEE PENSION PLAN:

Plan Description -

The Village of Lexington participates in the Municipal Employees Retirement System (MERS), a multiple employer state-wide, public employee defined benefit pension plan created under Public Act 135 of 1945, and now operates under Public Act 220 of 1996, and the MERS Plan Document as revised. MERS was established to provide retirement, survivor and disability benefits on a voluntary basis to the State of Michigan's local government employees. Act No. 427 of the Public Acts of 1984, as amended, establishes and amends the benefits provisions of the participants in MERS. The Municipal Employees Retirement System of Michigan issues a publicly available financial report that includes financial statements and required supplementary information for MERS. That report may be obtained by writing to the Municipal Employees Retirement System of Michigan, 447 N. Canal Road, Lansing, Michigan 48917 or by calling (800) 767-6377.

Funding Policy -

The plan adopted by the Village Council requires a 5% member contribution for general employees and 0.0% for the manager. The Village is required to contribute at an actuarially determined rate, which is 12.40% for general employees and 16.00% for the manager for fiscal 2008. The contribution requirements of plan members and the Village are established and may be amended by the Village, depending on the MERS contribution program adopted by the Village.

VILLAGE OF LEXINGTON, MICHIGAN
Sanilac County, Michigan

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008

NOTE 10 - EMPLOYEE PENSION PLAN - (cont'd):

Annual Pension Costs -

For fiscal 2008, the Village's annual pension cost of \$70,138 for MERS was equal to the Village's required and actual contributions. The required contribution was determined as part of the December 31, 2004 actuarial valuations using the entry age actuarial cost method. The actuarial assumptions included (a) a rate of return on the investment of present and future assets of 8.0% (b) projected salary increases of 4.5% per year annually attributable to inflation (c) additional projected salary increases ranging from 0.0% to 8.4% per year, depending on an age related scale to reflect merit, longevity, and promotional salary increases. The actuarial value of MERS assets was determined using techniques on a basis of evaluation method that assumes the funds earn the expected rate of return (8%) and includes an adjustment to reflect market value. Unfunded actuarial accrued liabilities, if any, were amortized as a level percent of payroll over a period of 30 years for positive unfunded liabilities and 10 years for negative unfunded liabilities, with these time periods reestablished with each actuarial valuation.

Three-Year Trend Information

<u>Fiscal Year Ending,</u>	<u>Annual Pension Costs (APC)</u>	<u>Percentage of APC Contribution</u>	<u>Net Pension Obligation</u>
June 30, 2006	\$ 67,866	100 %	\$ -
June 30, 2007	61,128	100	-
June 30, 2008	70,138	100	-

Schedule of Funding Progress

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets (a)</u>	<u>Actuarial Accrued Liability (AAL) Entry Age (b)</u>	<u>Unfunded (Overfunded) Accrued Liability (UAAL) (b-a)</u>	<u>Funded Ratio AAL (a/b)</u>	<u>Covered Payroll (c)</u>	<u>UAAL as a % of Covered Payroll ((b-a)/c)</u>
2005	\$ 843,329	\$ 1,332,026	\$ 488,697	63	\$ 443,420	110 %
2006	948,888	1,363,098	414,210	70	473,097	88
2007	1,081,150	1,563,927	482,777	69	497,837	97

NOTE 11 - POST RETIREMENT BENEFITS:

In addition to the pension benefits described in Note 10, the Village of Lexington provides post-retirement health care to all employees who retire from the Village on or after attaining age 55 with at least 25 years of continuous service. Expenditures for post-retirement health care benefits are recognized on a pay-as-you-go basis. For the fiscal year ended June 30, 2008, these costs amounted to approximately \$41,996 with three eligible participants.

VILLAGE OF LEXINGTON, MICHIGAN
Sanilac County, Michigan

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008

NOTE 12 - CONTINGENT LIABILITY:

The Village was involved in a condemnation case where in the Village sought to acquire property to expand the Village cemetery. The lawsuit was dismissed on technical grounds and the Village was ordered to pay \$67,628 and reasonable attorney fees. The landowner has requested additional reimbursement for attorney fees of approximately \$120,000. The attorney for the Village estimates that the settlement will be between \$60,000 and \$90,000. The Village, along with the payment of the \$67,628 from the cemetery fund, recorded \$104,000 as a contingent liability in the General Fund.

NOTE 13 - RESERVED FUND BALANCE:

Fund Balance has been reserved in various governmental funds to indicate the portion of Fund Balance not available but reserved for a specific purpose. The following is a summary of Reserved Fund Balance for all Village funds at June 30, 2008:

<u>Fund Type/Fund</u>	<u>Description</u>	<u>Amount</u>
Primary Government -		
General Fund	Prepaid Expenditures	\$ 48,951
	Metro Authority	<u>20,645</u>
		69,596
Municipal Street Fund	Prepaid Expenditures	2,125
Other Governmental Funds	Prepaid Expenditures	<u>262</u>
		<u>\$ 71,983</u>

REQUIRED SUPPLEMENTARY INFORMATION

VILLAGE OF LEXINGTON, MICHIGAN

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE BUDGET AND ACTUAL - GENERAL FUND FOR THE YEAR ENDED JUNE 30, 2008

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Revenues:				
Property taxes	\$ 323,111	\$ 326,518	\$ 327,336	\$ 818
Intergovernmental - State	336,264	95,825	84,150	(11,675)
Charges for services	196,107	201,395	183,415	(17,980)
Fines and forfeits	11,000	8,537	3,210	(5,327)
Interest and rents	15,000	10,325	8,576	(1,749)
Other	109,290	113,000	136,661	23,661
Total Revenues	<u>990,772</u>	<u>755,600</u>	<u>743,348</u>	<u>(12,252)</u>
Expenditures:				
Current -				
General Government	115,913	144,898	101,985	42,913
Public Safety	666,607	398,649	381,387	17,262
Public Works	24,336	35,074	68,193	(33,119)
Recreation and Culture	26,154	18,697	17,368	1,329
Other	245,697	238,573	273,852	(35,279)
Capital Outlay	-	-	52,550	(52,550)
Debt Service				
Principal	18,200	18,200	18,200	-
Interest	14,361	14,361	14,361	-
Total Expenditures	<u>1,111,268</u>	<u>868,452</u>	<u>927,896</u>	<u>(59,444)</u>
Revenues under expenditures	(120,496)	(112,852)	(184,548)	(71,696)
Fund Balance at beginning of year	<u>203,218</u>	<u>203,218</u>	<u>203,218</u>	<u>-</u>
Fund Balance at end of year	<u>\$ 82,722</u>	<u>\$ 90,366</u>	<u>\$ 18,670</u>	<u>\$(71,696)</u>

VILLAGE OF LEXINGTON, MICHIGAN

DETAILED STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE BUDGET AND ACTUAL - GENERAL FUND FOR THE YEAR ENDED JUNE 30, 2008

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Revenues:				
Property taxes	\$ 323,111	\$ 326,518	\$ 327,336	\$ 818
Intergovernmental -				
State	336,264	95,825	84,150	(11,675)
Charges for services	196,107	201,395	183,415	(17,980)
Fines and forfeits	11,000	8,537	3,210	(5,327)
Interest and rents	15,000	10,325	8,576	(1,749)
Other	109,290	113,000	136,661	23,661
	<u>990,772</u>	<u>755,600</u>	<u>743,348</u>	<u>(12,252)</u>
Expenditures:				
General Government -				
Village council	12,713	23,697	13,537	10,160
Village manager	95,421	90,100	68,180	21,920
Election	-	-	1,049	(1,049)
Village clerk	50,240	66,000	57,940	8,060
Zoning	-	-	900	(900)
Administrative services	154,651	162,213	153,766	8,447
	<u>313,025</u>	<u>342,010</u>	<u>295,372</u>	<u>46,638</u>
Less: Reimbursement from other funds	<u>(197,112)</u>	<u>(197,112)</u>	<u>(193,387)</u>	<u>(3,725)</u>
Total General Government	<u>115,913</u>	<u>144,898</u>	<u>101,985</u>	<u>42,913</u>
Public Safety -				
Fire department	421,142	129,271	115,099	14,172
Police department	245,465	269,378	266,288	3,090
Total Public Safety	<u>666,607</u>	<u>398,649</u>	<u>381,387</u>	<u>17,262</u>
Public Works -				
Department of public works	219,851	232,778	224,100	8,678
Less: Reimbursement from other funds	<u>(195,515)</u>	<u>(197,704)</u>	<u>(155,907)</u>	<u>(41,797)</u>
Total Public Works	<u>24,336</u>	<u>35,074</u>	<u>68,193</u>	<u>(33,119)</u>

Continued

VILLAGE OF LEXINGTON, MICHIGAN

DETAILED STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE BUDGET AND ACTUAL - GENERAL FUND FOR THE YEAR ENDED JUNE 30, 2008

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Recreation and Culture - Parks and recreation	\$ 26,154	\$ 18,697	\$ 17,368	\$ 1,329
Other - Municipal programs	245,697	238,573	273,852	(35,279)
Capital Outlay	-	-	52,550	(52,550)
Debt Service - Principal	18,200	18,200	18,200	-
Interest	14,361	14,361	14,361	-
	32,561	32,561	32,561	-
Total Expenditures	1,111,268	868,452	927,896	(59,444)
Revenues under expenditures	(120,496)	(112,852)	(184,548)	(71,696)
Fund Balance at beginning of year	203,218	203,218	203,218	-
Fund Balance at end of year	\$ 82,722	\$ 90,366	\$ 18,670	\$(71,696)

Concluded

VILLAGE OF LEXINGTON, MICHIGAN

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES BUDGET AND ACTUAL - MUNICIPAL STREET FUND FOR THE YEAR ENDED JUNE 30, 2008

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Revenues:				
Taxes	\$ 129,238	\$ 129,238	\$ 128,600	\$(638)
Interest	7,500	7,500	16,268	8,768
Total Revenues	<u>136,738</u>	<u>136,738</u>	<u>144,868</u>	<u>8,130</u>
Expenditures:				
Public Works -				
Administrative fees	10,255	10,255	18,242	(7,987)
Capital outlay	450,000	70,000	70,000	-
Total Expenditures	<u>460,255</u>	<u>80,255</u>	<u>88,242</u>	<u>(7,987)</u>
Excess of revenues over expenditures	(323,517)	56,483	56,626	143
Other Financing Sources (Uses):				
Transfers out	<u>-</u>	<u>(50,000)</u>	<u>(50,000)</u>	<u>-</u>
Net change in Fund Balance	(323,517)	6,483	6,626	143
Fund Balance at beginning of year	<u>436,765</u>	<u>436,765</u>	<u>436,765</u>	<u>-</u>
Fund Balance at end of year	<u><u>\$ 113,248</u></u>	<u><u>\$ 443,248</u></u>	<u><u>\$ 443,391</u></u>	<u><u>\$ 143</u></u>

OTHER SUPPLEMENTARY INFORMATION

VILLAGE OF LEXINGTON, MICHIGAN

COMBINING BALANCE SHEET NONMAJOR GOVERNMENTAL FUNDS JUNE 30, 2008

	Special Revenue Funds			
	Major Street	Local Street	County Road	Cemetery
ASSETS				
Cash and cash equivalents	\$ 192,606	\$ 26,311	\$ 365,084	\$ 31,683
Investments	-	-	-	18,800
Receivables -				
Accounts	-	-	-	575
Due from other governmental units -				
State	7,526	3,545	-	-
Due from other funds	13,481	16,271	-	-
Due from component unit	-	-	-	65
Advances to other funds	-	-	-	-
Prepaid expenditures and deposits	-	-	-	262
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total Assets	<u>\$ 213,613</u>	<u>\$ 46,127</u>	<u>\$ 365,084</u>	<u>\$ 51,385</u>
 LIABILITIES AND FUND BALANCE				
Liabilities:				
Accounts payable	\$ -	\$ 1,149	\$ 4,233	\$ 254
Accrued liabilities	-	-	-	169
Due to other funds	1,706	-	9,491	-
Total Liabilities	<u>1,706</u>	<u>1,149</u>	<u>13,724</u>	<u>423</u>
 Fund Balance:				
Reserved -				
Prepaid	-	-	-	262
Unreserved -				
Undesignated	211,907	44,978	351,360	50,700
Total Fund Balance	<u>211,907</u>	<u>44,978</u>	<u>351,360</u>	<u>50,962</u>
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total Liabilities and Fund Balance	<u>\$ 213,613</u>	<u>\$ 46,127</u>	<u>\$ 365,084</u>	<u>\$ 51,385</u>

<u>Capital Equipment</u>	<u>Total</u>
\$ 255,978	\$ 871,662
-	18,800
-	575
-	11,071
-	29,752
-	65
60,000	60,000
-	262
<u>\$ 315,978</u>	<u>\$ 992,187</u>

\$ -	\$ 5,636
-	169
-	11,197
<u>-</u>	<u>17,002</u>

-	262
<u>315,978</u>	<u>974,923</u>
<u>315,978</u>	<u>975,185</u>
<u>\$ 315,978</u>	<u>\$ 992,187</u>

VILLAGE OF LEXINGTON, MICHIGAN

COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES NONMAJOR GOVERNMENTAL FUNDS FOR THE YEAR ENDED JUNE 30, 2008

	Special Revenue Funds			
	Major Street	Local Street	County Road	Cemetery
Revenues:				
Taxes	\$ -	\$ -	\$ 80,547	\$ 25,726
Intergovernmental -				
State	45,947	21,634	-	-
Charges for services				
Sale of lots / Internment fees	-	-	-	13,350
Interest	5,892	699	12,030	2,290
Other	2,537	1,180	-	-
	<u>54,376</u>	<u>23,513</u>	<u>92,577</u>	<u>41,366</u>
Expenditures:				
Current -				
General Government	-	-	-	21,163
Public Works	47,384	72,902	118,994	-
Capital Outlay	-	-	-	-
	<u>47,384</u>	<u>72,902</u>	<u>118,994</u>	<u>21,163</u>
Excess of revenues over (under) expenditures	<u>6,992</u>	<u>(49,389)</u>	<u>(26,417)</u>	<u>20,203</u>
Other Financing Sources (Uses):				
Transfers in	25,000	66,590	25,000	-
Transfers out	(11,590)	-	(55,000)	-
Total other financing sources (uses)	<u>13,410</u>	<u>66,590</u>	<u>(30,000)</u>	<u>-</u>
Net change in Fund Balances	20,402	17,201	(56,417)	20,203
Fund Balances at beginning of year	<u>191,505</u>	<u>27,777</u>	<u>407,777</u>	<u>30,759</u>
Fund Balances at end of year	<u>\$ 211,907</u>	<u>\$ 44,978</u>	<u>\$ 351,360</u>	<u>\$ 50,962</u>

<u>Capital Equipment</u>	<u>Total</u>
\$ -	\$ 106,273
-	67,581
-	13,350
4,838	25,749
-	3,717
<u>4,838</u>	<u>216,670</u>
-	21,163
-	239,280
<u>9,717</u>	<u>9,717</u>
<u>9,717</u>	<u>270,160</u>
<u>(4,879)</u>	<u>(53,490)</u>
100,000	216,590
<u>-</u>	<u>(66,590)</u>
<u>100,000</u>	<u>150,000</u>
95,121	96,510
<u>220,857</u>	<u>878,675</u>
<u>\$ 315,978</u>	<u>\$ 975,185</u>

VILLAGE OF LEXINGTON, MICHIGAN

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES BUDGET AND ACTUAL - NONMAJOR SPECIAL REVENUE FUNDS FOR THE YEAR ENDED JUNE 30, 2008

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
MAJOR STREET				
Revenues:				
Intergovernmental -				
State	\$ 41,083	\$ 42,330	\$ 45,947	\$ 3,617
Interest	4,000	5,772	5,892	120
Other	-	6,728	2,537	(4,191)
Total Revenues	<u>45,083</u>	<u>54,830</u>	<u>54,376</u>	<u>(454)</u>
Expenditures:				
Public Works -				
Salaries	13,120	8,949	8,203	746
Administrative fees	6,128	6,128	4,595	1,533
Supplies	3,000	4,000	3,673	327
Equipment rental	7,980	24,051	14,436	9,615
Repairs and maintenance	1,000	1,000	548	452
Purchased services	25,000	25,000	7,293	17,707
Traffic and street lights	10,697	10,697	8,546	2,151
Other	-	-	90	(90)
Capital outlay	160,000	-	-	-
Total Expenditures	<u>226,925</u>	<u>79,825</u>	<u>47,384</u>	<u>32,441</u>
Excess of revenues over (under) expenditures	(181,842)	(24,995)	6,992	31,987
Other Financing Uses:				
Transfers in	-	25,000	25,000	-
Transfers out	-	-	(11,590)	(11,590)
	<u>-</u>	<u>25,000</u>	<u>13,410</u>	<u>(11,590)</u>
Net change in fund balance	<u>(181,842)</u>	<u>5</u>	<u>20,402</u>	<u>20,397</u>
Fund Balance at beginning of year	<u>191,505</u>	<u>191,505</u>	<u>191,505</u>	<u>-</u>
Fund Balance at end of year	<u>\$ 9,663</u>	<u>\$ 191,510</u>	<u>\$ 211,907</u>	<u>\$ 20,397</u>

Continued

VILLAGE OF LEXINGTON, MICHIGAN

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES BUDGET AND ACTUAL - NONMAJOR SPECIAL REVENUE FUNDS FOR THE YEAR ENDED JUNE 30, 2008

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
LOCAL STREET				
Revenues:				
Intergovernmental -				
State	\$ 30,272	\$ 28,272	\$ 21,634	\$(6,638)
Interest	3,000	667	699	32
Other	-	2,333	1,180	(1,153)
Total Revenues	<u>33,272</u>	<u>31,272</u>	<u>23,513</u>	<u>(7,759)</u>
Expenditures:				
Public Works -				
Salaries	21,390	21,390	20,087	1,303
Administrative fees	8,617	8,617	2,163	6,454
Supplies	3,000	4,628	7,736	(3,108)
Equipment rental	30,000	30,000	29,272	728
Repairs and maintenance	1,000	1,000	204	796
Purchase of services	20,000	20,000	13,105	6,895
Other	-	335	335	-
Total Expenditures	<u>84,007</u>	<u>85,970</u>	<u>72,902</u>	<u>13,068</u>
Excess of revenues under expenditures	(50,735)	(54,698)	(49,389)	5,309
Other Financing Sources:				
Transfers in	<u>55,000</u>	<u>55,000</u>	<u>66,590</u>	<u>11,590</u>
Net change in Fund Balance	4,265	302	17,201	16,899
Fund Balance at beginning of year	<u>27,777</u>	<u>27,777</u>	<u>27,777</u>	<u>-</u>
Fund Balance at end of year	<u>\$ 32,042</u>	<u>\$ 28,079</u>	<u>\$ 44,978</u>	<u>\$ 16,899</u>

Continued

VILLAGE OF LEXINGTON, MICHIGAN

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES BUDGET AND ACTUAL - NONMAJOR SPECIAL REVENUE FUNDS FOR THE YEAR ENDED JUNE 30, 2008

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
COUNTY ROAD				
Revenues:				
County road Millage	\$ 78,000	\$ 80,513	\$ 80,547	\$ 34
Interest	7,000	10,924	12,030	1,106
Total Revenues	<u>85,000</u>	<u>91,437</u>	<u>92,577</u>	<u>1,140</u>
Expenditures:				
Public Works -				
Salaries	8,000	8,000	8,203	(203)
Administrative fees	8,372	8,372	8,372	-
Equipment rental	13,100	13,100	14,436	(1,336)
Utilities	10,053	10,053	8,304	1,749
Purchase of Services	25,000	22,000	29,616	(7,616)
Capital outlay	340,000	50,000	50,063	(63)
Total Expenditures	<u>404,525</u>	<u>111,525</u>	<u>118,994</u>	<u>(7,469)</u>
Excess of revenues under expenditures	(319,525)	(20,088)	(26,417)	(6,329)
Other Financing Sources:				
Transfers in	-	25,000	25,000	-
Transfers out	(55,000)	(55,000)	(55,000)	-
	(55,000)	(30,000)	(30,000)	-
Net change in Fund Balance	<u>(374,525)</u>	<u>(50,088)</u>	<u>(56,417)</u>	<u>(6,329)</u>
Fund Balance at beginning of year	<u>407,777</u>	<u>407,777</u>	<u>407,777</u>	<u>-</u>
Fund Balance at end of year	<u><u>\$ 33,252</u></u>	<u><u>\$ 357,689</u></u>	<u><u>\$ 351,360</u></u>	<u><u>\$(6,329)</u></u>

Continued

VILLAGE OF LEXINGTON, MICHIGAN

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES BUDGET AND ACTUAL - NONMAJOR SPECIAL REVENUE FUNDS FOR THE YEAR ENDED JUNE 30, 2008

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
CEMETERY				
Revenues:				
Taxes	\$ 25,838	\$ 25,838	\$ 25,726	\$(112)
Charges for services -			-	
Sale of lots / Internment fees	7,000	14,000	13,350	(650)
Interest	2,000	2,000	2,290	290
Total Revenues	<u>34,838</u>	<u>41,838</u>	<u>41,366</u>	<u>(472)</u>
Expenditures:				
General Government -				
Salaries	7,997	7,997	6,316	1,681
Fringe benefits	663	663	695	(32)
Administrative fees	6,757	6,757	4,610	2,147
Supplies	500	500	393	107
Equipment rental	9,130	9,130	2,963	6,167
Purchase of services	6,301	6,301	4,977	1,324
Repairs and Maintenance	1,230	1,230	285	945
Utilities	1,087	1,087	924	163
Total Expenditures	<u>33,665</u>	<u>33,665</u>	<u>21,163</u>	<u>12,502</u>
Excess of revenues over expenditures	1,173	8,173	20,203	12,030
Fund Balance at beginning of year	<u>30,759</u>	<u>30,759</u>	<u>30,759</u>	<u>-</u>
Fund Balance at end of year	<u>\$ 31,932</u>	<u>\$ 38,932</u>	<u>\$ 50,962</u>	<u>\$ 12,030</u>

Continued

VILLAGE OF LEXINGTON, MICHIGAN

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES BUDGET AND ACTUAL - NONMAJOR SPECIAL REVENUE FUNDS FOR THE YEAR ENDED JUNE 30, 2008

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	Variance with Final Budget Positive (Negative)
CAPITAL EQUIPMENT				
Revenues:				
Interest	\$ 5,500	\$ -	\$ 4,838	\$ 4,838
Expenditures:				
Public Safety- Capital Outlay	<u>-</u>	<u>-</u>	<u>9,717</u>	<u>(9,717)</u>
Excess of revenues over (under) expenditures	5,500	-	(4,879)	(4,879)
Other Financing Sources:				
Transfers in	<u>100,000</u>	<u>100,000</u>	<u>100,000</u>	<u>-</u>
Net change in Fund Balance	105,500	100,000	95,121	(4,879)
Fund Balance at beginning of year	<u>220,857</u>	<u>220,857</u>	<u>220,857</u>	<u>-</u>
Fund Balance at end of year	<u><u>\$ 326,357</u></u>	<u><u>\$ 320,857</u></u>	<u><u>\$ 315,978</u></u>	<u><u>\$(4,879)</u></u>

Concluded

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

To the President and Members
of the Village Council
Village of Lexington, Michigan

We have audited the financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the Village of Lexington, Michigan as of and for the year ended June 30, 2008, which collectively comprise the Village's basic financial statements and have issued our report thereon dated October 31, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the Village of Lexington, Michigan's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Village's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Village's internal control over financial reporting.

Our consideration of the internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or a combination of control deficiencies, that adversely affects the Village's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Village's financial statements that is more than inconsequential will not be prevented or detected by the Village's internal control. We considered the deficiency described in the accompanying schedule of findings and responses to be a significant deficiency in internal control over financial reporting; which is referenced as 08-01.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we do not believe that the significant deficiency described above is a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Village of Lexington, Michigan's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under ***Government Auditing Standards***.

This report is intended solely for the information and use of management, and the Village Council of Lexington, Michigan and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in cursive script, reading "Stewart Beausant Whipple".

Certified Public Accountants

October 31, 2008

**VILLAGE OF LEXINGTON
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED JUNE 30, 2008**

Finding 08-01: Preparation of the Financial Statements in Accordance with GAAP

Criteria: Statement on Auditing Standards No. 112 “Communicating Internal Control Related Matters Identified in an Audit” specifies that the auditee is responsible for internal control over financial reporting. The financial reporting includes the financial statements, including the notes, be presented in accordance with Generally Accepted Accounting Principles. As is the case with many similar-size entities, the Village relies on its independent auditors to assist in preparing the financial statements and footnotes.

Condition: The Village relies on the auditor to prepare the external financial statements in accordance with generally accepted accounting principles.

Effect: There is the possibility that a misstatement of the Village’s financial statements that is more than inconsequential could occur and not be prevented or detected by the Village’s internal control.

Cause: The Village has made the decision that it is more cost effective to outsource the preparation of its annual financial statements to the external auditors than to incur the time and expense of obtaining the necessary training and expertise required to prepare financial statements in accordance with generally accepted accounting principles. The Village has assigned however, individuals to review the annual financial statements for accuracy with the Village financial records.

Recommendation: We recommend that the Village continue to review the annual financial statements and to continue developing an understanding of reporting requirements and note disclosure.

Views of responsible officials and planned action: We are having our accountant become more familiar with accounting requirements to greater eliminate the likelihood of a significant error in financial reporting. We must continue to evaluate the efficiency and cost in relationship to what we believe to be our risk of misstatement.

AUDIT COMMUNICATION LETTER

October 31, 2008

To the President and Members
of the Village Council
Village of Lexington
Lexington, Michigan

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component unit, each major fund, and the aggregate remaining fund information of the Village of Lexington, Michigan for the year ended June 30, 2008, and have issued our report thereon dated October 31, 2008. Professional standards require that we provide you with the following information related to our audit.

Our responsibility under U.S. Generally Accepted Auditing Standards and Government Auditing Standards

As stated in our engagement letter dated July 18, 2008, our responsibility, as described by professional standards, is to express an opinion about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities.

As part of our audit, we considered the internal control of the Village of Lexington, Michigan. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of the Village's compliance with certain provisions of laws, regulations, contracts, and grants. However, the objective of our tests was not to provide an opinion on compliance with such provisions.

Planned Scope and Timing of Audit

We performed the audit according to the planned scope and timing previously communicated with discussions with management.

Quantitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the Village of Lexington, Michigan are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2007-08. We noted no transactions entered into by the Village of Lexington, Michigan during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the basic financial statements and because of the possibility that future events affecting them may differ significantly from those expected.

The most sensitive estimates affecting the financial statements were the estimates for depreciation. Management estimates for these items are based on historical data and estimated lives. We evaluated the key factors and assumptions used to develop the estimates in determining that they are reasonable in relation to the financial statements taken as a whole.

The disclosures in the financial statements are neutral, consistent, and clear. Certain financial statement disclosures are particularly sensitive because of their significance to financial statement user. The most sensitive disclosures affecting the financial statements were:

The disclosure of the custodial credit risk of deposits in Note 3 of the financial statements indicates the Village holds \$1,914,191 of total deposits of which \$224,664 is insured with the remaining \$1,689,527 uninsured/uncollateralized, is particularly sensitive to the financial users given the risk of a bank failure, the Village's deposits may not be returned.

Financial Reporting Adjustments

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has recorded all such adjustments. Also, several material closing entries were proposed as a result of our assistance in converting to the modified accrual and accrual basis of accounting. All the proposed closing entries were approved and recorded.

Assistance with GASB No. 34 Presentation

As a result of our assistance with the GASB No. 34 presentation, we proposed several entries to the June 30, 2008 account balances to reflect the difference between the Governmental Fund and the Governmental-wide financial statements.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Difficulties Encountered in Performing the Audit

We encountered no difficulties in dealing with management in performing and completing our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated October 31, 2008.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a “second opinion” on certain situations. If a consultation involves application of an accounting principle to the governmental unit’s financial statements or a determination of the type of auditor’s opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant factors. To our knowledge, there were not such consultations with other accountants.

Other Audit Findings or Issues

We noted one deficiency in internal control over financial reporting that we consider to be a significant deficiency. We reported this item in the Report on Internal Control over Financial Reporting and on Compliance and Other Matters.

In addition to the Report on Internal Control, we noted a few other items that although are not considered significant deficiencies could improve controls, the operational efficiency and/or compliance with laws and regulations. These items are discussed in Attachment A.

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the governmental unit’s auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

This information is intended solely for the use of the Village Council of Lexington, Michigan and management and is not intended to be and should not be used by anyone other than these specified parties.



Certified Public Accountants

Attachment A

The following is a list of items that we discussed with administration that are not considered significant deficiencies, however, are items that could improve controls, the operational efficiency of the accounting department and/or compliance with laws and regulations:

The Village should consider increasing internal controls.

- **Controls over the receipting process**

At the present time, the entire receipting process does not have the division of duties to provide for appropriate internal controls because there are instances where one individual performs the billing, receipting and recording functions and also makes deposits at the bank. Also, not all checks received are stamped “for deposit only” at the time of receipt.

We recommend that the receipting process be reviewed to implement division of duties where ever possible and to assure that all checks received are stamped “for deposit only” upon receipt.

- **Controls over journal entries**

At the present time journal entries are maintained for control purposes with a description of the entry. However, not all journal entries are required to be formally approved by a second individual.

Not having procedures requiring that journal entries be formally approved allows for the possibility of inaccurate financial reporting.

We recommend that the journal entries be approved by an individual that is able to analyze the accompanying information supporting the entry. This may be accomplished by having different individuals reviewing journal entries, or at a minimum, any journal entries that are not standard entries.

- **Control over fire run revenue**

During the testing of revenue we noted that the fire department did not retain records of fire runs. As a result, the Village is unable to compare revenues recorded in the general ledger to a detailed listing.

We recommend that the fire department maintain a listing of fire runs that is available for comparison to the general ledger of the Village.

Village should consider adopting several formal policies

- **Payment of invoices prior to board approval**

As noted during the audit, the Village does not have a board resolution for the payment of invoices before board approval. During discussions with Village employees, the only payments made before board approval are recurring payments (utilities, phone, etc). The Michigan Department of Treasury requires the board to approve all invoices before payment unless a formal resolution is approved specifying when payment can be made prior to approval.

We recommend the Village adopt a resolution for the payment of invoices before board approval. The resolution should state which invoices this applies to.

- **Conflict of Interest**

In a small municipality, the likelihood of the Village having transactions with a related party to either a council member, member of management or other personnel is increased. As a result, it is important to have a formal policy to help eliminate any misunderstanding.

We recommend that the Board adopt a conflict of interest policy outlining the areas that would be considered a conflict and when there is a conflict, the procedures that should be followed, such as the member not voting on the issue, disclosing the conflict annually, etc.

- **Electronic Transactions**

Public Act 738 of 2002 requires that each governing body adopt a policy for Automated Clearing House (ACH) arrangements and Electronic Transactions of Fund. The policy should contain procedures and personnel responsible for payment approval, accounting, reporting and general overseeing of compliance issues.

We recommend that a policy be adopted for electronic transactions. In addition, a record of all electronic transactions should be maintained to document which accounts are involved and the purpose of the transfer.

- **Cafeteria Plan**

During the audit we noted that payments in lieu of health insurance have been made to employees without the Village having adopted a formal cafeteria plan.

When a taxable benefit (the payment of cash) is made in lieu of non-taxable benefit (health insurance) a cafeteria plan should be adopted to prevent the possible taxability of the otherwise non-taxable benefit (health insurance.)

We recommend that you implement a formal plan structured to fit the needs and requirements of the Village in order to remain in compliance with the IRS.

The Village should consider updating certain policies and procedures

- **Investment Policy**

During 2006, GASB No. 40 became effective for all governmental units. The Statement requires that the governmental unit disclose additional information regarding the types of investments held, length of maturity, security's rating, any limitation on the amounts that can be invested with any one financial institution or type of investment, etc. In addition, it discusses four types of risk: custodial credit risk, interest rate risk, credit risk and concentration of credit risk. (See Note 3 to the annual financial statements.)

We recommend that the current Village investment policy be reviewed and modified to address each type of risk. During this process, the Board should consider whether they want to limit the amount and/or percentage of cash and investment that can be invested with any financial institution since the Village is only insured for \$100,000 (\$250,000 as of October 3, 2008) for interest and noninterest bearing accounts with each financial institution.

- **Cost Allocation Plan and Procedures**

As a result of the change in Village managers and accounting personnel, the basis supporting the allocation of administrative and departmental costs has not been updated.

This has made it difficult to support the charging of specific costs to the various funds and activities of the Village since the basis for percentage used is not readily available and verifiable.

We recommend that the Village update its cost allocation plan and procedures to more reflect current operations and provide for allocation percentages that have a readily available and verifiable basis.

- **Chart of Accounts Classification Procedures**

At the present time the Village uses the Michigan Department of Treasury uniform Chart of Accounts as required for governmental units. However, there is some inconsistency in the level of budgeting and reporting that results in a large amount reported under the function “other” on the annual financial statements.

We recommend that the Village review its functional classifications to determine if certain activities can be reported under specific functions rather than other.

- **Water and Sewer Rate Increases**

The Village has not increased water and sewer rates since 2005. As a result, it has been difficult for the system to generate adequate revenue to cover increasing costs. Increased volume has assisted in covering fixed costs however; variable costs have at a minimum increased due to inflation with no offsetting rate increase.

We recommend that the rates be reviewed and a policy be implemented that water and sewer rates will be evaluated annually with the consideration of a minimum increase for at least the cost of living.